

Highlights of [GAO-03-409](#), a report to the Senate Committee on Governmental Affairs and the House Committee on Government Reform

### Why GAO Did This Study

Civil penalties are an important element of regulatory enforcement, allowing agencies to punish violators appropriately and to serve as a deterrent to future violations. In 1996, Congress enacted the Inflation Adjustment Act to require agencies to adjust certain penalties for inflation. GAO assessed federal agencies' compliance with the act and whether provisions in the act have prevented agencies from keeping their penalties in pace with inflation.

### What GAO Recommends

Congress may wish to consider amending the act to (1) require or permit agencies to adjust their penalties for lost inflation; (2) make the calculation and rounding procedures more consistent with changes in inflation; (3) permit agencies with exempt penalties to adjust them for inflation; and (4) give some agency the responsibility to monitor compliance and provide guidance.

The Department of Justice, the Department of the Treasury, and the Office of Management and Budget did not comment on the first three matters for congressional consideration. The agencies suggested changes to the fourth matter, but we did not make those changes.

[www.gao.gov/cgi-bin/getrpt?GAO-03-409](http://www.gao.gov/cgi-bin/getrpt?GAO-03-409).

To view the full report, including the scope and methodology, click on the link above. For more information, contact Victor Rezendes (202) 512-6806 or [rezendesv@gao.gov](mailto:rezendesv@gao.gov).

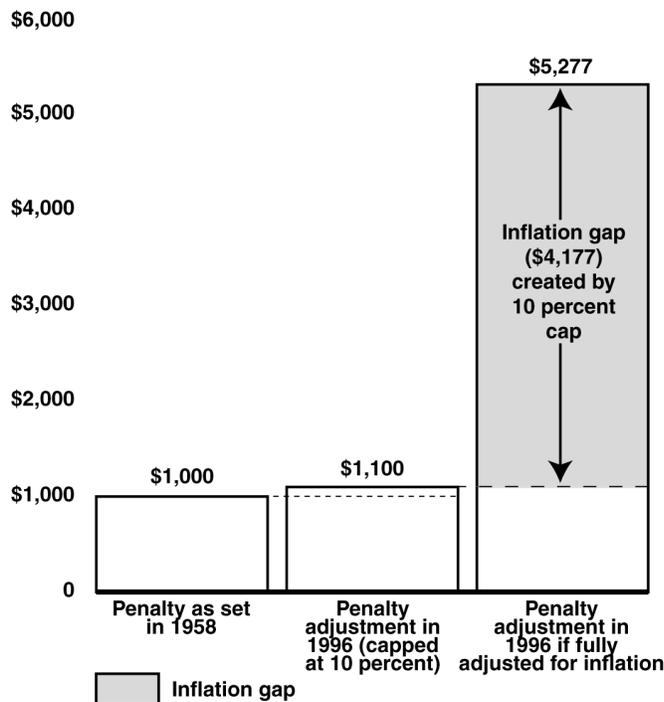
## CIVIL PENALTIES

### Agencies Unable to Fully Adjust Penalties for Inflation Under Current Law

#### What GAO Found

As of June 2002, 16 of 80 federal agencies with civil penalties covered by the Inflation Adjustment Act had not made the required initial adjustments to their penalties. Nineteen other agencies had not made required subsequent adjustments, and several other agencies had made incorrect adjustments. The act does not give any agency the authority to monitor compliance or to provide guidance to agencies. More important, several provisions of the act have prevented some agencies from fully adjusting their penalties for inflation. One provision limited the agencies' first adjustments to 10 percent of the penalty amounts, even if the penalties were decades old and hundreds of percent behind inflation. The resultant "inflation gap" can never be corrected under the statute and grows with each subsequent adjustment. (The figure below illustrates the effect of the cap on one agency's \$1,000 penalty set in 1958.) Also, the act's calculation and rounding procedures require agencies to lose a year of inflation each time they adjust their penalties, and can prevent some agencies from making adjustments until inflation increases by 45 percent or more (i.e., 15 years or more at recent rates of inflation). Finally, the act exempts penalties under certain statutes from its requirements entirely. Consequently, more than 100 exempted penalties have declined in value by 50 percent or more since Congress last set them.

Ten Percent Cap on Initial Penalty Adjustments Resulted in Large Inflation Gaps



Source: GAO.